

ACTUARIAL ASSOCIATION OF EUROPE RESPONDS TO THE COMMISSION CONSULTATION ON A NEW DIGITAL FINANCE STRATEGY FOR EUROPE / FINTECH ACTION PLAN

The Actuarial Association of Europe (AAE) has today answered to the [Commission consultation](#).

The Commission, according to its workplan, will propose in Q3 of 2020 a new Digital Finance Strategy/FinTech Action Plan that sets out a number of areas that public policy should focus on in the coming five years. It will also include policy measures organised under these priorities. The Commission consulted until end of June stakeholders on issues around this strategy, and the AAE was one of the respondents.

Digitalisation is transforming the European financial system and the provision of financial services. The financial ecosystem is continuously evolving, with technologies moving from experimentation to pilot testing and new market players entering the financial sector. Digital finance can also contribute in a number of ways to tackle the COVID-19 outbreak and its consequences. The coronavirus emergency has underscored the importance of innovations in digital financial products services.

The AAE thinks the main obstacles to fully reap the opportunities of innovative technologies in the European financial sector are

- missing regulatory clarity on application of AI and Machine Learning in insurance,
- a limited amount of AI use cases and success stories available to insurance professionals,
- scarce skills required for valuable and riskless application of AI, and
- legacy IT systems as a source of error.

There are challenges and opportunities in the area. Among the challenges the AAE mentions:

- increasing cyber and systemic risks, and
- misuse of data and models.

An advantage but also a challenge can be higher granularity when pricing, yielding more precise prices but potentially leaving certain groups uninsurable.

The AAE notes that if technology companies in financial services do not model premiums, reserves or other balance sheet items properly and basic actuarial principles are violated, companies can incur losses by design or can be subject to a significant legal risk. Consequently, the well-being and financial security of policyholders could be endangered and systemic risks could emerge

The Actuarial Association of Europe represents actuaries across Europe who are heavy users of data already historically but even more so with Big Data. Actuaries know well the errors one can do with data. We would like to stress the importance of professionalism in the use of data to avoid problems in the models generated.

26 June 2020